



Brussels, 3 September 2010

BACKGROUND¹
ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 7 September in Brussels

*Proceedings will begin on Monday 6 September, at 17.00, with a meeting of the **Task force on economic governance**, chaired by Herman Van Rompuy.*

*Starting at 9.00 on Tuesday, the Council is expected to endorse changes in implementation of the EU's **stability and growth pact** in order to allow introduction of a "European semester", during which the budgetary and structural policies of the member states would be monitored.*

*The Council will hold a first exchange of views on the possible introduction in the EU of a **levy on banks** and a **tax on financial transactions**, in the context of resolution measures to be applied should a further crisis occur in the banking sector.*

Over lunch, the presidency will present the draft agenda for an informal meeting of the Council that will take place in Brussels on 30 September and 1 October, and ministers will discuss reform of the International Monetary Fund and issues relating to the International Accounting Standards Board.

*The **Euro Group** will meet after lunch, starting at 14.30.*

Press conferences:

- at the end of the Council (*before lunch*);
- after the Euro Group meeting.

Press conferences and public events by video streaming: <http://video.consilium.europa.eu/>

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¹ This note has been drawn up under the responsibility of the press office

European semester

The Council is expected to endorse the modification of a code of conduct on implementation of the EU's stability and growth pact, enabling a "European semester" to be introduced as from next year as part of a reform of EU provisions on economic governance.

The so-called European semester is a six-month period every year during which the budgetary and structural policies of the member states will be monitored in accordance with the stability and growth pact. The changes to the code of conduct have been prepared by the Economic and Financial Committee, as requested by the Council at its meeting on 13 July.

The European semester is one of the first initiatives to emerge from a task force on economic governance set up at the request of the European Council in March and chaired by the President of the European Council, Herman Van Rompuy..

Bank levies

The Council will hold an exchange of views, on the basis of a non-paper from the Commission, regarding the possible introduction in the EU of levies on banks and other financial institutions.

The presidency's intention is for the Council to provide guidance on this issue, with a view to forthcoming proposals from the Commission.

During the financial crisis, governments in the EU provided public support to financial institutions amounting to 16.5% of EU GDP. The support was necessary to ensure the stability of the financial system, but it imposed a heavy burden on taxpayers.

A message that emerged from the G-20 summit in Pittsburg in September 2009, strongly backed by the EU, is that taxpayers' money should not be used again to cover bank losses. And whilst working to reduce the probability of banking failure through strengthened supervision, better corporate governance and tighter regulatory standards, the EU has also been working to ensure that sufficient resources are available for an orderly and timely resolution should a further crisis occur.

The establishment of resolution funds constituted from private sector sources are an important part of this response. In a communication presented in May², the Commission recommends the establishment of *ex ante* resolution funds – to be financed by a levy on banks – in order to facilitate the resolution of ailing banks as part of a new crisis management framework at EU level.

At its meeting on 17 June, the European Council agreed that the member states should introduce systems of levies and taxes on financial institutions in order to ensure fair burden-sharing and to set incentives to contain systemic risk. It asked the Council and the Commission to take work forward and to report back in October.

Progress on the issue at international level has proven more difficult. At a summit in Toronto on 27 June, the G-20 agreed that the financial industry should contribute towards paying for any burdens associated with government interventions to repair the financial system or fund resolution. However, whilst acknowledging that some countries are pursuing a financial levy, it noted that other countries are pursuing other approaches.

² Doc. 10394/10

In the EU, a number of countries have already introduced levies on banks or are in the process of doing so, though the nature of those levies differs from one country to another. In its non-paper, the Commission assesses the need for a coordinated approach at EU level and proposes general principles that could be agreed in order to avoid competitive distortions between national markets, overlaps and the multiple imposition of levies on banks that have cross-border activities.

The Commission recognises that it would be difficult to create an EU resolution fund in the absence of an integrated EU supervisory and crisis management framework. It therefore suggests that a harmonised network of national funds be established as a first step. Greater understanding between national authorities would be key to aligning measures taken in the event of a banking failure with cross-border effects.

Tax on financial transactions

The Council will hold an exchange of views, on the basis of a note from the Commission, regarding the possible introduction in the EU of a tax on financial transactions.

The presidency's intention is for the Council to provide guidance on the issue, with a view to possible proposals from the Commission.

Along with the bank levy (see above), this issue is one of a number being discussed with a view to enabling an orderly and timely resolution should a further crisis occur in the banking sector. In the Commission's view moreover, such initiatives are not mutually exclusive and can be used to address different policy objectives.

In June, the European Council agreed that the member states should introduce systems of levies and taxes on financial institutions; it asked the Council and the Commission to take work forward and to report back in October.

In its note, the Commission examines whether new taxes on the financial industry are needed in addition to those already imposed on it, what the objectives would be, how the taxes could be structured and whether they could be introduced unilaterally by the EU without triggering tax avoidance or jeopardising the competitiveness of financial centres in the EU.

The Commission suggests three possible policy goals:

- reducing volatility in financial markets and the harmful effects of excessive risk taking;
- ensuring that the financial industry makes a fair contribution to public finances;
- contributing to the consolidation of member state budgets in the aftermath of the financial crisis.

The note examines two possible options for the basis of imposition:

- a financial transactions tax, i.e. a turnover tax that would be levied on organised financial markets;
- a financial activities tax, i.e. a tax applied on the sum of profit and remuneration of financial institutions.
